



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

October 2, 2008

To: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

Board of Supervisors  
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First District

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Second District

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Third District

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MICHAEL D. ANTONOVICH  
Fifth District

## IMPACT OF THE FINANCIAL CONDITION OF AMERICAN INTERNATIONAL GROUP ON THE COUNTY OF LOS ANGELES COMMERCIAL INSURANCE PROGRAM

This memorandum provides the latest information requested by your Board during the September 23, 2008, meeting concerning the financial status of American International Group (AIG), and AIG's impact on the County's commercial insurance coverage.

### Background

Currently, of the 12 County commercial insurance programs three involve AIG as the insurer. The following table lists the three commercial insurance programs for which AIG provides all or a portion of the insurance.

Insurance Program	Coverage and Limits Provided by AIG	Policy Renewal Date	Broker
Aircraft/Airport Insurance	\$100 million Aircraft and Airport Liability, and \$140 million Hull coverage for the County's aircraft fleet.	01/01/09	Aon
Fiduciary Liability Insurance	\$20 million of the \$27 million Fiduciary Liability insurance, covering County Deferred Income Plans Administrative Committee members, and County employees who administer the Plans.	04/22/09	Willis-HRH
Consolidated Property Insurance Program	\$58 million of the \$800 million All-Risk and \$160 million Earthquake insurance covering Bond financed or selected leased County structures and equipment, and \$300 million of Terrorism coverage.	07/01/09	Willis-HRH

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### **Current AIG Ratings**

Subsequent to the Federal Reserve's decision to make available an \$85 billion secured loan to AIG, AIG's insurance companies have been rated "A" by A.M. Best and "A+" by Standard and Poors. Both ratings indicate a strong financial capability to meet ongoing obligations to policyholders and sound financial security. The Insurance Commissioners for California, New York, and Pennsylvania indicate that AIG's insurance companies are financially sound and possess the required assets to meet policyholder obligations. County insurance brokers, Aon and Willis-HRH, confirm they continue conducting business with AIG's insurance companies; have placed AIG on their "Watch List;" and will issue an alert should AIG's ratings drop below an acceptable level and/or business with AIG is suspended. As a result, the Chief Executive Office (CEO) concluded that the financial condition of AIG's insurance companies is sufficient to maintain AIG as an insurer of the County's current insurance programs.

The \$85 billion authorized by the Federal Reserve applies to AIG's holding company, not AIG's insurance companies. As stated by the National Association of Insurance Commissioners President and State of Kansas Commissioner of Insurance Sandy Praeger, "First and foremost, AIG is not an insurance company; it is a Federally-regulated holding company under the jurisdiction of a Federal regulator. It is AIG's holding company - more specifically, its financial products division - that lies at the heart of AIG's financial difficulties."

### **Replacement of AIG**

In consideration of AIG's current ratings and positions taken by numerous State Insurance Commissioners, the CEO decided not to replace AIG at this time. Additionally, immediate replacement of AIG exposes the County to additional cost resulting from early cancellation of AIG policies and the purchase of replacement coverage, likely at increased premium costs. Although the Aircraft/Airport Insurance policies do not contain an early cancellation penalty, cancellation of AIG's Fiduciary and Property Insurance policies would trigger an Early Cancellation Penalty, estimated at \$290,000 if both policies were cancelled effective October 1, 2008.

Should the CEO deem it financially necessary to immediately replace AIG, the CEO, Aon, and Willis-HRH have already identified qualified insurers prepared and available to replace AIG.

### **Actions Taken**

The CEO initiated the following to protect the County's interests:

- On September 15 and 16, 2008, authorized Aon and Willis-HRH to contact insurers to discuss immediate replacement of AIG, should it become necessary;
- Participated in numerous conference calls with other Aon clients regarding AIG concerns and alternatives being considered;
- Scheduled a meeting with the President of AIG Aviation for early November 2008; and
- Arranged to obtain AIG-related advisory updates from Aon and Willis-HRH's Market Security Offices.

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Based on AIG's current ratings, the position taken by States Insurance Commissioners, the \$85 billion loan authorized by the Federal Reserve, and ongoing information and advisories from Aon and Willis-HRH, the CEO plans to:

- Not immediately replace AIG;
- Continue closely monitoring AIG ratings and issues; and
- Explore replacing AIG at each policy renewal.

We will advise your Board of any significant future events regarding AIG that may impact the County's commercial insurance program.

If you have any questions or need additional information, please call me or Rocky A. Armfield, County Risk Manager, at (213) 351-5346.

WTF:ES  
RAA:DU:LS:sg

c: Executive Officer, Board of Supervisors  
County Counsel  
All Department Heads  
All Department Risk Management Coordinators